

Audit Report

Barry-Eaton District Health Department
WIC Program

October 1, 2001 – September 30, 2002



Office of Audit
Quality Assurance and Review Section
January 2004



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

January 6, 2004

James Schnackenberg, R.S., M.A.
Health Officer
Barry-Eaton District Health Department
528 Beech Street
Charlotte, Michigan 48813

Dear Mr. Schnackenberg:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Barry-Eaton District Health Department WIC Program for the period October 1, 2001 through September 30, 2002.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

cc: Alethia Carr, Director, WIC Division
James B. Hennessey, Director, Office of Audit
David Figg, Audit Manager, Office of Audit

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DESCRIPTION OF AGENCY

The Barry-Eaton District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Eaton County, which is the reporting entity, and the administrative office is located in Charlotte, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Barry and Eaton Counties. The Health Department provides community health program services to the residents of Barry and Eaton Counties. These services include: food service sanitation, on-site sewage disposal, drinking water supply, vision screening, hearing screening, immunizations, sexually transmitted disease control, general communicable disease control, Breast and Cervical Cancer Control Prevention (BCCCP) Coordination, BCCCP Direct Services, family planning/pregnancy prevention, maternal and child outreach enrollment & coordination, Women Infants and Children (WIC) Supplemental Food Program, children's special health care services, community assessment, AIDS/HIV prevention, and worksite community health promotion/cardiovascular disease prevention.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) provides the Health Department with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the fiscal period October 1, 2001 to September 30, 2002. We performed our review procedures in March 2003. Our review procedures included the following:

- Reviewed the most recent Eaton County Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with OMB Circular A-87.
- Reviewed payroll expenditures.
- Reviewed equipment inventory records.
- Reviewed WIC coupon inventory controls.

Our audit did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective 1: To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the WIC Program. However, we found exceptions relating to the equipment inventory (Finding 1).

Finding

1. Incomplete Equipment Inventory List

The Health Department's equipment inventory list does not include the funding source and program designation for each item of equipment on the inventory list.

Good internal controls over the accountability, security, and proper accounting of equipment inventory include maintaining an equipment inventory listing that includes the program designation and funding source. The program designation for each item of equipment on the inventory list would be helpful in tracking the existence and use of assets in performing annual inventories. Also, in identifying Agency Support Indirect Cost, since only equipment items purchased with local funds are eligible for depreciation expense, the funding source should be included to assist with the preparation of the depreciation schedule. Without this information, certain equipment items could be erroneously included in, or omitted from the depreciation computation.

Recommendation

We recommend that the Health Department revise the inventory list to include the funding source and program designation for each item of equipment.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions with the Agency Support Indirect Cost Rate (Finding 2), and Community Health Division Administration Cost (Finding 3).

Finding

2. Agency Support Indirect Cost Rate Inaccurate

The Agency Support Indirect Cost Rate contained errors and an omission.

In our review of the Agency Support Indirect Cost Rate, we noted the following errors and omission:

- A. The indirect cost used in the reported indirect rate was overstated by \$12,718 as a result of being computed based on preliminary rather than final cost information, because it was the best information available at the time.
- B. The indirect cost used in the reported indirect rate was overstated by the inclusion of a one-time direct allocation of \$61,219 for a new Bio-terrorism Grant that was accumulated in the Agency Support cost center until a new cost center for the grant could be set up.
- C. The indirect cost used in the reported indirect rate was understated by the omission of the Management Information Services Cost (MIS - Cost Center 130) of \$140,913 from the Agency Support Cost Pool.

Per Office of Management and Budget (OMB) Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section F – Indirect Costs, Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Errors and omissions in the indirect cost pool and indirect rate computation result in inaccurate overhead cost allocations to programs. The overhead cost allocation is very important in analyzing and reporting the correct total cost to operate each program.

The above errors and omission were adjusted to determine the allowable indirect cost as defined in OMB Circular A-87. The net adjustment to correct the above errors and omission resulted in an increase to the Agency Support Indirect Cost Pool of \$66,976, which resulted in an increase to the indirect rate to 29.86%, from the reported 28.03%. For the WIC Program, the rate increase resulted in an additional indirect cost of \$4,708, which is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment does not affect the WIC grant funds since the grant funds were already fully spent.

Recommendation

We recommend that the Health Department implement review procedures to ensure that appropriate and final costs are included in the computation of the Agency Support Indirect Cost Rate.

Finding

3. Community Health Division Administrative Cost Rate Inaccurate

The Community Health Division Administrative Cost Rate computation had two omissions.

In our review of the Community Health Division Administrative Cost Rate, we noted the following two omissions:

- A. The Community Health Division Administrative Cost Center's share of Agency Support indirect cost was omitted which understated the cost pool by \$65,893.
- B. A year-end adjustment that reduced salary and fringe cost in the cost pool was omitted which overstated the cost pool by \$8,164.

Per OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section F – Indirect Costs, Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. Agency Support Indirect Cost is cost that benefits all programs and activities of the Health Department including Division-level Administration cost centers. Then, the Division Administration cost, including its share of Agency Support Indirect Cost, should be allocated to all programs within the Community Health Division.

The net adjustments to correct the above omissions resulted in an increase to the Community Health Division Administrative Cost Pool of \$57,729, which resulted in an increase to the allocation rate to 17.03%, from the reported 13.6%. For the WIC Program, the rate increase resulted in an increase to the Community Health Division Administrative Cost allocation by \$8,822, which is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment does not affect the WIC grant funds since the grant funds were already fully spent.

Recommendation

We recommend that the Health Department implement review procedures to ensure the Division-level Administrative cost allocations include their share of Agency Support Indirect Cost, and include final year-end cost adjustments.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligation under the WIC Program for fiscal year ended September 30, 2002, is \$239,619. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Barry - Eaton District Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/01 - 9/30/02**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$239,619	\$239,619 ¹	\$0	\$239,619
Local Funds	\$150,831	\$138,466	\$13,530	\$151,996
TOTAL REVENUES	\$390,450	\$378,085	\$13,530	\$391,615
EXPENDITURES:				
Salary and Wages	\$196,532	\$195,422	\$0	\$195,422
Fringe Benefits	\$67,637	\$61,841	\$0	\$61,841
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$5,000	\$9,319	\$0	\$9,319
Travel	\$4,270	\$4,085	\$0	\$4,085
Communications	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$2,285	\$317	\$0	\$317
Indirect Cost	\$80,925	\$72,111	\$4,708 ²	\$76,819
Community Health Administration	\$33,801	\$34,990	\$8,822 ³	\$43,812
TOTAL EXPENDITURES	\$390,450	\$378,085	\$13,530	\$391,615

¹ Actual MDCH payments.

² Recomputed Agency Support Indirect Cost Rate and allocation to WIC (Finding 2).

³ Recomputed Community Health Administration Rate and allocation to WIC (Finding 3).

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Incomplete Equipment Inventory List

The Health Department's equipment inventory list does not include the funding source and program designation for each item of equipment on the inventory list.

Recommendation: Revise the inventory list to include the funding source and program designation for each item of equipment.

Comments: The Agency has a depreciation schedule that lists all equipment purchases.

Corrective Action: The Agency will update the depreciation schedule with the funding source and program designation.

Anticipated

Completion Date: December 2003

MDCH Response: No comments.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Agency Support Indirect Cost Rate Inaccurate

The Agency Support Indirect Cost Rate contained errors and an omission.

Recommendation: Implement review procedures to ensure that appropriate and final costs are included in the computation of the Agency Support Indirect Cost Rate.

Comments: Agency agrees.

Corrective Action: The Agency will implement a review procedure to ensure that appropriate and final costs are included in the computation of the Agency Support Indirect Cost Rate.

Anticipated

Completion Date: Immediate

MDCH Response: No comments.

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Community Health Division Administrative Cost Rate Inaccurate

The Community Health Division Administrative Cost Rate computation had two omissions.

Recommendation: Implement review procedures to ensure the Division-level Administrative cost allocations include their share of Agency Support Indirect Cost, and include final year-end adjustments.

Comments: Agency agrees.

Corrective Action: The Agency will implement a review procedure to ensure the Division-Level Administrative cost allocations include their share of Agency Support Indirect Cost, and include final year-end adjustments.

Anticipated

Completion Date: Immediate

MDCH Response: No comments.